

Message Text

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ACTION AID-20

INFO OCT-01 EUR-25 ISO-00 EA-11 CIAE-00 INR-10 NSAE-00

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FM AMEMBASSY PARIS

TO AMEMBASSY SAIGON

INFO SECSTATE WASHDC 4038

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E.O. 11652 N/A

TAGS: EAID, VS, FR

SUBJ: FRENCH LOANS TO VIETNAM

REF: SAIGON 17843

1. RE PARA 1 REFTTEL, EVEN IF HATIEM CEMENT PLANT LOAN HAD BEEN AT NORMAL RATE OF 6.5 PERCENT CURRENTLY IN EFFECT FOR BUYER CREDITS OF MORE THAN SEVEN YEARS MATURITY, BANQUE FRONCAISE DU COMMERCE EXTERIEUR (BFCE) WOULD HAVE HAD, IN EFFECT, TO "SUBSIDIZE" THIS RATE FOR ACCOUNT OF FRENCH TREASURY BY CARRYING MATURITIES OF MORE THAN SEVEN YEARS AT 6.5 PERCENT, WHEN COST OF LONG-TERM MONEY IN FRENCH FINANCIAL MARKET IS WELL ABOVE THAT LEVEL. IN THIS TELEGRAM WE CANNOT, OF COURSE, ENTER INTO ALL OF THE COMPLICATIONS OF FRENCH EXPORT CREDIT SYSTEM. HOWEVER, IT LOOKS TO US AS IF BFCE WOULD HAVE TO PUT OUT ITS MONEY AT A VERY LOW YIELD - PERHAPS ONE OR 1.5 PERCENT - DURING THE FIRST SEVEN YEARS OF THE OPERATION IN ORDER GET AVERAGE RATE ON EARLY MATURITIES (I.E., SEVEN YEARS OR LESS) DOWN FROM 6.5 PERCENT TO 4 PERCENT. WHILE THIS MAY BE "DO-ABLE", IT WOULD RUN CONTRARY TO WHAT FRENCH HAVE SAID ABOUT THEIR EXPORT CREDIT PROGRAM, AND WOULD, INsofar AS WE ARE AWARE, BE UNIQUE. WE RECOGNIZE THAT HIGHER PRICING OF PROJECT IS POSSIBLE ALTERNATIVE TECHNIQUE FOR LIMITED OFFICIAL USE

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COVERING COSTS OF LOW NOMINAL INTEREST RATE. HOWEVER, SUPPLIER DOES

NOT PARTICIPATE IN FINANCING (ALTHOUGH UNDER EXPORT CREDIT INSURANCE HE IS LEFT WITH 5-10 PERCENT OF RISK). CONSEQUENTLY THIS ROUTE WOULD AT LEAST INVOLVE SOME RATER COMPLICATED BOOK-KEEPING BETWEEN SUPPLIER AND LENDING BANKS.

2. RE PARA 2 REFTTEL, IT CORRECT THAT FOR RECIPIENTS OTHER THAN FRENCH-SPEAKING COUNTRIES IN AFRICA FRENCH PRACTICE IS ALMOST INVARIABLY TO "MIX" OFFICIAL LOANS AND GOVERNMENT-GAURANTEED PRIVATE EXPORT CREDITS. SOMETINES MIX S ONE-THIRD OFFICAL, TWO THIRDS PRIVATE. MOST FAVORABLE RATION ON RECORD IS FIFTY-FIFTY. RE OFFICIAL PORTION, LONGEST TERM OF LOANS KNOWN TO US HAVE BEEN FOR 25.5 YEARS, INCLUDING 5.5 YEAR GRACE PERIOD. LOWEST RATE OF INTEREST 3 PERCENT. PRIVATE PORTION GENERALLY INVOLVES 10 YEAR BUYER CREDITS, WHICH AT PRESENT CARRY INTEREST RATE OF 6.5 PERCENT.
IRWIN

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